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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 /103 W
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FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC PRIORITY 8086
INFO AMCONSUL CALGARY
AMCONSUL HALIFAX
AMCONSUL MONTREAL
AMCONSUL QUEBEC
AMCONSUL TORONTO
AMCONSUL VANCOUVER
AMCONSUL WINNIPEG

UNCLAS OTTAWA 3578

DEPT PASS CEA, TREAS, FRB

E.O. 11652: N/A
TAGS: ECON, EFIN, CA
SUBJECT: ECONOMIC DEVELOPMENT: WEEK ENDING JULY 14.

1. SUMMARY. OUTLOOK FOR INFLATION AND REAL GROWTH HAS DARKENED SOMEWHAT. IMPACT OF SALES TAX CUT ON CONSUMPTION SPENDIND DIFFICULT TO ASSESS FROM RECENT SALES FIGURES. SHORT TERM INTEREST RATES UP SLIGHTLY IN WEEK; EXCHANGE RATE STABLE. PROVINCE OF QUEBEC HAS REFINANCED AT IMPROVED TERMS A PORTION OF ITS FOREIGN DEBT. END SUMMARY.

2. SHORT TERM OUTLOOK. PRIVATE FORECASTERS HAVE REVISED DOWNWARD SOMEWHAT THEIR FORECASTS FOR REAL GNP GROWTH THIS YEAR. IN JUNE, CONFERENCE BOARD FORECAST 4 PERCENT REAL GROWTH COMPARED WITH GROWTH PROJECTIONS OF 5 PERCENT AND
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4.5 PERCENT MADE BY BOARD LAST DECEMBER AND MARCH RESPC-TIVELY. CONFERENCE BOARD REMAINS AT HIGH END OF CONSENSUS GROWTH FORECAST WHICH PUTS REAL GROWTH IN 3.5 PERCENT - 4 PERCENT RANGE, DOWN FROM 4 PERCENT LEVEL EXPECTED IN MARCH. DOWNWARD REVISIONS RESULT FROM HIGHER EXPECTED INFLATION (LINKED TO SURGING FOOD PRICES) WHICH WILL DE-

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PRESS REAL CONSUMPTION SPENDING.

3. ECONOMIC INDICATORS:

-- SEASONALLY ADJUSTED RETIAL SALES WERE CDOLS 5.7 BILLION IN MAY, UP 2.2 PERCENT FROM REVISED APRIL LEVEL AND BY 14 PERCENT FROM LEVEL OF MAY 1977. REVISED MONTLY INCREASE IN MAY WAS ONLY 1 PERCENT COMPARED WITH 2.3 PERCENT RISE INITIALLY ESTIMATED.

-- DEPARTMENT STORE SALES TOTALLED CDOLS 603 MILLION IN MAY, A TWELVE MONTH RISE OF 11.7 PERCENT AND A SUBSTANTIAL ACCELERATION FROM 4.9 PERCENT INCREASE IN TWELVE MONTHS TO APRIL.

COMMENT: STRONG GROWTH OF RETAIL AND DEPARTMENT STORE SALES COULD INDICATED THAT CUT IN PROVINCIAL SALES TAXES HAS PROVIDED SOME BOOST TO CONSUMER SPENDING. HOWEVER, PRELIMINARY FIGURES FOR APRIL ALSO SHOWED HEALTH GAIN IN RETAIL SALES, WHILE REVISED DATA INDICATED A MUCH SMALLER RISE. MOREOVER, COORELATION BETWEEN GROWTH OF CONSUMPTION SPENDING AND OF RETIAL SALES HAS BEEN WEAK OVER PAST SEVERAL MONTHS. IMPACT OF TAX CUTS ON CONSUMPTION SPENDING IS THUS DIFFICULT TO ASSESS FROM SALES DATA.

4. CAPITAL MARKETS: SHORT TERM INTEREST RATES EDGED UP-WARD IN WEEK. INTEREST RATES ON THREE MONTH TREASURY BILLS
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WAS 8.37 PERCENT COMPARED WITH 8.32 PERCENT PREVIOUS WEEK. CANADA/U.S. RATE DIFFERENTIAL ON THREE MONTH BILLS WAS 121 BASIS PINTS, A SLIGHT NARROWING FROM LAST WEEK'S DIFFER-ENTIAL OF 125 BASIS POINTS.

5. MONEY SUPPLY: SEASONALLY ADJUSTED M1 STOOD AT CDOLS 21.4 BILLION IN JUNE, AN 8.5 PERCENT INCREASE FROM JUNE 1977, BASE FOR CALCULATING M1 GROWTH RELATIVE TO BANK OF CANADA'S 7 - 11 PERCENT TARGET RANGE. THUS, GROWTH OF M1 REMAINS WELL WITHIN TARGETTED LIMITS.

6. FOREIGN BORROWING: PROVINCE OF QUEBEC HAS CONCLUDED AN ARRANGEMENT WITH BANK CONSORTIUM WHICH WILL REDUCE ITS INTEREST COSTS SOMEWHAT AND IMPROVE DEBT STRUCTURE. PROVINCE WILL BORROW U.S. DOLS 500 MILLION, OF WHICH U.S. DOLLARS 300 MILLION WILL BE USED TO REPAY BORROWING DONE IN SPRING, 1977 AT HIGHER INTEREST RATES AND SHORTER MATUR-ITIES. NEW LOAN WILL HAVE 10 YEAR MATURITY WITH INTEREST RATE SET AT 0.62 ABOVE LONDON INTER-BANK OFFER RATE (LIBOR), FOR FIRST TWO YEARS AND 0.75 PERCENT ABOVE LIBOR FOR REMAINING EIGHT. INITIAL LOAN HAD 7 YEAR MATURITY AND

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INTEREST RATES OF 1.12 POINTS ABOVE LIBOR FOR FIRST 2 YEARS AND 1.25 SPREAD FOR REMAINING 5 YEARS. BALANCE OF LOAN, U.S. DOLS 200 MILLION, WILL BE A REVOLVING MEDIUM TERM CREDIT.

7. HYDRO QUEBEC'S U.S. DOLS 100 MILLION ISSUE OF 30 YEAR DEBENTURES WAS WELL RECEIVED IN NEW YORK MARKET. ISSUE CARRIED COUPON OF 10 PERCENT, WAS PRICED AT 99.75 TO YIELD 10.03 PERCENT AND HAS SINCE MOVED TO A PREMIUM IN SECONDARY MARKET.

8. EXCHANGE RATE: EXCHANGE RATE STABLE DURING WEEK, HOVERING CLOSE TO 89 U.S. CENTS AND CLOSING AT 89.04 U.S. CENTS COMPARED WITH PREVIOUS WEEK'S CLOSE OF 89.05 U.S. CENTS. ENDERS
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NNN

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